

CITY OF ESSEXVILLE
BAY COUNTY
STATE OF MICHIGAN

FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
FISCAL YEAR ENDED JUNE 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF ESSEXVILLE	County B AY
Audit Date 6/30/04	Opinion Date 10/11/04	Date Accountant Report Submitted to State: 12/30/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) QUAST, JANKE AND COMPANY CPA'S PC			
Street Address 1010 N. JOHNSON		City BAY CITY	State MI
		ZIP 48708	
Accountant Signature <i>Jeff E. K. Quast CPA</i>			Date 12/30/04

CITY OF ESSEXVILLE
BAY COUNTY
STATE OF MICHIGAN

FINANCIAL STATEMENTS
FISCAL YEAR ENDED June 30, 2004

CITY OFFICIALS - As of June 30, 2004

Mayor	Thomas Rehmus
Council Member	Ronald Graham
Council Member	Michael Barrow
Council Member	Dr. Richard Link
Council Member	William Hydorn
Council Member	Todd Smith
Council Member	John Connelly
Treasurer	Fran DeWyse
Clerk	Lois Englehardt
Attorney	Gerald Pergande
Director of Public Safety	Tim Weiler
City Manager	Dale Majerczyk

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Quast, Janke and Company, P.C.
Certified Public Accountants

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Michigan Association of C.P.A.'s

INDEPENDENT AUDITOR'S REPORT

October 11, 2004

To the City Council
The City of Essexville
Essexville, Michigan 48732

We have audited the financial statements of the governmental activities, business-type activities, and major funds as of and for the year ended June 30, 2004 which collectively comprise the City of Essexville's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, business-type activities, and each major fund as of June 30, 2004, and the changes in financial position and cash flows, where applicable, of those activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

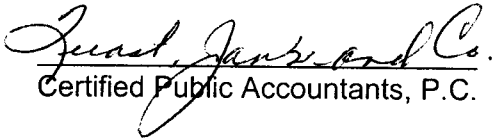
As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of the GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of July 1, 2003.

Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements, but are supplementary information required by the GASB. We have applied certain limited procedures, which consist principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

To the City Council
The City of Essexville
October 11, 2004
Page 2

Our audit was conducted for the purpose of forming an opinion on the City's basic financial statements. The individual fund statements and schedules described in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

QUAST, JANKE AND COMPANY


Certified Public Accountants, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Essexville's annual Financial Report presents the Management Discussion and Analysis (MDA) of the City's financial activities during the fiscal year ended June 30, 2004. It is intended to be read as part of the City's financial statements, which immediately follow this section.

Because the City of Essexville is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

FINANCIAL HIGHLIGHTS

- The assets of the City of Essexville exceeded liabilities at June 30, 2004, by \$1,194,385. Of this amount all is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's net assets increased by \$ 94,166 during the year. Of this amount the assets of our governmental activities decreased \$ 2,539 and the assets of our business-type activities increased by \$ 96,705.

USING THIS REPORT

The annual report consists of a series of financial statements as well as other requirements as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

Government-wide Financial Statements consists of a statement of net assets and a statement of activities. These provide information about the activities of the City as a whole and represent an overall view of the City's finances.

Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund Financial Statement report the City's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information, other than MD&A, provides information about the required budgetary comparison information.

Other Supplementary Information provides detailed information about the General Fund.

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets and the Statement of Activities - the Government-wide statements report information about the City as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Assets includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of

MANAGEMENT'S DISCUSSION AND ANALYSIS

Activities regardless of when cash is received or paid.

One of the most important questions asked about the City's finances is: Is the City as a whole better or worse off as a result of the year's activities? The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is very similar to the method of accounting used by most private sector companies. The two statements report the City's net assets, which are the difference between assets and liabilities, as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Additional factors such as changes in the City's property tax base and the condition of the City's infrastructure are also important in making this decision.

In the Statement of Net Assets and the Statement of Activities, we have divided the City into two kinds of activities:

- **Governmental Activities** - Most of the City's basic services are reported here, such as public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- **Business-Type Activities** - This activity includes the water and sanitary sewer systems. This activity is financed primarily by user charges.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

The fund financial statements provide detailed information about individual, significant funds, not the City as a whole. Some funds are required to be established by State law and by bond covenants. The City can establish other funds to control and manage money for particular purposes (such as construction or street projects) and to show that it is properly using certain revenues (such as tax increment financing revenues). The City has two kinds of funds:

Governmental Funds

The Governmental Funds account of most of the City's basic services. They focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental funds include the General Fund; Special Revenue Funds such as Major Street; Local Street and Downtown Development Authority. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The government fund statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The financial statements required for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

Proprietary Funds

Proprietary Funds account for the City's enterprise funds. These funds report services for which the City charges customers for the service it provides. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the proprietary fund and the business-type activities included in the

MANAGEMENT'S DISCUSSION AND ANALYSIS

government-wide statement is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The enterprise fund includes the Water and Sewer Funds, considered to be a major fund of the City. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The financial statements required for proprietary funds include a statement of net assets, a statement of revenues, expenses, and changes in fund net assets and a statement of cash flows.

GOVERNMENT- WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as useful indicator of financial position. The following analysis shows the City's total net assets at June 30, 2004.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current and other assets	\$ 2,560,148	\$ 900,320	\$ 3,460,468
Capital assets net of accumulated depreciation	<u>1,738,062</u>	<u>2,059,779</u>	<u>2,797,841</u>
Total Assets	4,298,210	2,960,099	7,258,309
LIABILITIES			
Current liabilities	280,835	613,089	418,924
Long-term liabilities	<u>4,250,000</u>	<u>1,395,000</u>	<u>5,645,000</u>
Total Liabilities	4,550,835	2,008,089	6,558,924
NET ASSETS			
Invested in capital assets net of related debt	(2,661,938)	574,779	(2,087,159)
Unrestricted	<u>2,429,341</u>	<u>850,231</u>	<u>3,281,572</u>
Total Net Assets	<u>\$ (232,625)</u>	<u>\$ 1,427,010</u>	<u>\$ 1,194,387</u>

The largest portion of the City's net assets is invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Total unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements is approximately \$3,281,572.

The following analysis provides the changes in the net assets for the City's governmental and business-type activities:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
REVENUES:			
Charges for services	\$ 246,225	\$ 903,605	\$ 1,149,830
Operating grants and contributions	0	0	0
Capital grants and contributions	0	0	0

MANAGEMENT'S DISCUSSION AND ANALYSIS

GENERAL REVENUES:

Property taxes	1,194,051	0	1,194,051
State shared revenue	671,083	0	671,087
Unrestricted investment earnings	31,796	9,323	41,119
Miscellaneous	<u>38,967</u>	<u>0</u>	<u>38,967</u>

Total Revenues	<u>\$ 2,182,122</u>	<u>\$ 912,928</u>	<u>\$ 3,095,050</u>
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	Governmental Activities	Business-type Activities	Total
PROGRAM EXPENSES:			
Legislative	\$ 14,570	\$ 0	\$ 14,570
General government	413,122	0	413,122
Public safety	678,476	0	678,476
Public works	741,501	0	741,501
Recreation/cultural	121,804	0	121,804
Interest	215,188	0	215,188
Water and Sewer	<u>0</u>	<u>816,223</u>	<u>816,223</u>
Total expenses	<u>2,184,661</u>	<u>816,223</u>	<u>3,000,884</u>

INCREASE(DECREASE) IN NET ASSETS	<u>\$ (2,539)</u>	<u>\$ 96,705</u>	<u>\$ 94,166</u>
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INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Essexville completed its year, its governmental funds reported a total fund balance of \$1,942,365, which is less than the \$2,053,733 total fund balance at June 30, 2003.

The General Fund, the operating fund for the City, ended FY04 with an \$1,038,709 balance compared to the prior year ending fund balance of \$1,015,201. The Major Street Fund Balance increased by \$59,990. The Debt Service Fund Balance increased by \$4,774. The Rubbish and Trash Fund Balance increased by \$25,775.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

The Water and Sewer Fund, which accounts for the operation and maintenance of the City's water and sewer system, ended FY04 with a \$1,427,010 net asset balance compared to prior year ending net asset balance of \$1,331,006.

BUDGETARY HIGHLIGHTS

During the year ended June 30, 2004, the City amended the budget two (2) times. The amendments were done to cover unbudgeted expenditures. The amendments were mainly required to cover unplanned expenditures associated with projects that carried over from the prior fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The City's investment in capital assets, including land, buildings and improvements, equipment, water systems, sewer systems, lighting systems, traffic signals and other infrastructure represents

MANAGEMENT'S DISCUSSION AND ANALYSIS

the value of the resources utilized to provide services to citizens. Capital assets for governmental activities totaled \$1,738,062 (net of accumulated depreciation) at June 30, 2004. Capital assets for business-type activities totaled \$2,059,779 (net of accumulated depreciation) at June 30, 2004. See the notes to the financial statements for more information about the City's capital assets. The major capital outlays for governmental activities during the year included a police car. For business-type activities, no major additions were incurred.

LONG-TERM DEBT

At year end the City had \$5,885,000 in outstanding revenue bonds. All debt in the business-type activities is detailed below:

Sewer Fund - State Revolving Fund ("SRF") loan administered by the Michigan Department of Environmental Quality to construct mandated improvements at the City's wastewater treatment plant.

<u>SRF Loan 1997</u>	\$ 1,990,000
Balance June 30, 2003	1,575,000
Balance June 30, 2004	1,485,000

Infrastructure Bonds - In 1999 local voters authorized the City Council to sell up to \$5,000,000 of general obligation bonds restricted for improvements to the City's water, sewer and storm water infrastructure. These bonds were sold in three series; \$2,000,000 (January 11, 2000), \$1,500,000 (February 27, 2001) and \$1,500,000 (February 28, 2002).

<u>Infrastructure Bond - 2000 Series</u>	2,000,000
Balance June 30, 2003	1,525,000
Balance June 30, 2004	1,450,000

<u>Infrastructure Bond - 2001 Series</u>	1,500,000
Balance June 30, 2003	1,500,000
Balance June 30, 2004	1,450,000

<u>Infrastructure Bond - 2002 Series</u>	1,500,000
Balance June 30, 2003	1,500,000
Balance June 30, 2004	1,500,000

<u>Combined Series - 2000, 2001, 2002</u>	\$ 5,000,000
Balance June 30, 2003	4,525,000
Balance June 30, 2004	4,400,000

ECONOMIC FACTORS

Our elected officials consider many factors when setting the City's 2005 fiscal year budget. One of the most important factors affecting the budget is the State of Michigan's economy. This resulted in a \$40,000 decrease in State shared revenues in the year ended June 30, 2004 and additional cuts may be forthcoming in 2005.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to present our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and operating activities. If you have any questions or require additional information please contact Administration at the City of Essexville, 1107 Woodside Avenue, Essexville, MI 48732.

CITY OF ESSEXVILLE
Essexville, Michigan

GOVERNMENT WIDE STATEMENT OF NET ASSETS
June 30, 2004

	Primary Government		
	Governmental Activities	Business -Type Units	Total
ASSETS:			
Cash	\$ 2,491,860	\$ 824,511	\$ 3,316,371
Accounts receivables	20,227	75,809	96,036
Receivable from State	42,927	-	42,927
Prepaid expense	5,134	-	5,134
Capital assets:			
Land and improvements	456,240	-	456,240
Buildings and improvements	637,642	-	637,642
Construction in progress	79,180	-	79,180
Equipment	100,461	-	100,461
Vehicles	1,095,814	-	1,095,814
Water and sewer systems	-	2,373,778	2,373,778
Accumulated depreciation	(631,275)	(313,999)	(945,274)
Total Assets	4,298,210	2,960,099	7,258,309
LIABILITIES:			
Accounts payable	52,778	26,335	79,113
Accrued expenses	20,776	5,221	25,997
Customer deposits	-	3,300	3,300
Compensated absences	57,281	13,233	70,514
Notes and bonds payable			
Amount due within one year	150,000	90,000	240,000
Amount due more than one year	4,250,000	1,395,000	5,645,000
Total Liabilities	4,530,835	1,533,089	6,063,924
NET ASSETS:			
Investment in capital assets net of related debt	(2,661,938)	574,779	(2,087,159)
Unrestricted - designated	543,537	838,500	1,382,037
- undesignated	1,885,776	13,731	1,899,507
	(232,625)	1,427,010	1,194,385
Total Net Assets	\$ (232,625)	\$ 1,427,010	\$ 1,194,385

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE
Essexville, Michigan

GOVERNMENT WIDE STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

		Program Revenue	Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	Expenses	Charges for Services	Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT:					
GOVERNMENTAL ACTIVITIES:					
Legislative	\$ 14,570	\$ -	\$ (14,570)	\$ -	\$ (14,570)
General Government	413,122	45,757	(367,365)	-	(367,365)
Public Safety	678,476	8,089	(670,387)	-	(670,387)
Public Works	741,501	192,379	(549,122)	-	(549,122)
Recreation and Cultural	121,804	-	(121,804)	-	(121,804)
Interest	215,188	-	(215,188)	-	(215,188)
Total governmental activities	2,184,661	246,225	(1,938,436)	-	(1,938,436)
BUSINESS-TYPE ACTIVITIES					
Water and Sewer	816,223	903,605	-	87,382	87,382
Total business-type activities	816,223	903,605	-	87,382	87,382
Total Primary Government	\$ 3,000,884	\$ 1,149,830	(1,938,436)	87,382	(1,851,054)
GENERAL PURPOSE REVENUES:					
Property taxes			1,194,051	-	1,194,051
State shared revenues			671,083	-	671,083
Unrestricted Investment earnings			31,796	9,323	41,119
Miscellaneous			38,967	-	38,967
Total General Purpose Revenues			1,935,897	9,323	1,945,220
Change in Net Assets			(2,539)	96,705	94,166
Net Assets at beginning of year, as adjusted			(230,086)	1,330,305	1,100,219
Net Assets - End of Year			\$ (232,625)	\$ 1,427,010	\$ 1,194,385

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE
Essexville, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2004

	GENERAL	MAJOR STREETS	RUBBISH & TRASH	DEBT SERVICE	OTHER NONMAJOR FUNDS	TOTAL
ASSETS:						
Cash	\$ 1,037,008	\$ 193,703	\$ 143,036	\$ 12,787	\$ 551,968	\$ 1,938,502
Customer receivables	-	-	18,720	-	-	18,720
Other receivables	1,012	-	30	-	465	1,507
Prepaid expenses	5,134	-	-	-	-	5,134 00
Due from other Funds	35,661	-	-	-	4,829	40,490
Due from State	-	31,509	-	-	11,418	42,927
	<u>-</u>	<u>31,509</u>	<u>-</u>	<u>-</u>	<u>11,418</u>	<u>42,927</u>
TOTAL ASSETS	\$ 1,078,815	\$ 225,212	\$ 161,786	12,787	568,680	\$ 2,047,280
LIABILITIES:						
Accounts payable	\$ 22,199	\$ 1,067	\$ 15,488	-	5,099	\$ 43,853
Deferred revenue	-	-	-	-	-	-
Accrued expenses	17,827	566	651	-	1,528	20,572
Due to other funds	-	-	-	4,829	35,661	40,490
	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,829</u>	<u>35,661</u>	<u>40,490</u>
TOTAL LIABILITIES	40,026	1,633	16,139	4,829	42,288	104,915
FUND BALANCES:						
Unreserved, reported in:						
General Fund	1,038,789	-	-	-	-	1,038,789
Special Revenue Funds	-	223,579	145,647	-	347,175	716,401
Capital Projects Fund	-	-	-	-	179,217	179,217
Debt Service Fund	-	-	-	7,958	-	7,958
	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,958</u>	<u>-</u>	<u>7,958</u>
Total Fund Balances	1,038,789	223,579	145,647	7,958	526,392	1,942,365
TOTAL LIABILITIES AND FUND BALANCE:	\$ 1,078,815	\$ 225,212	\$ 161,786	\$ 12,787	\$ 568,680	\$ 2,047,280

The accompanying notes are an integral part of the financial statements

CITY OF ESSEXVILLE
Essexville, Michigan

GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO STATEMENT OF NET ASSETS
June 30, 2004

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 1,942,365

Amounts reported for governmental activities in the statement
of net assets are different because -

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the governmental funds
balance sheet:

Capital assets at cost	1,273,503
Accumulated depreciation	(116,051)
Debt balances are carried in the Long-Term Debt Account Group and are not reported in the Governmental Funds balance sheet	(4,457,281)

An Internal Service fund is used by the City to charge equipment rental
costs to individual funds. The assets and liabilities of the Internal Service
Fund is included in governmental activities of the statement of net assets

Cash	553,358	
Capital assets	1,095,814	
Accumulated depreciation	(515,224)	
Accounts Payable and accrued repairs	(9,129)	
Net adjustment		<u>1,124,819</u>

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ (232,645)

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE
Essexville, Michigan

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year ended June 30, 2004

	GENERAL	MAJOR STREETS	RUBBISH & TRASH	DEBT SERVICE	OTHER NONMAJOR FUNDS	TOTAL
REVENUES:						
Taxes	\$ 745,791	\$ -	\$ 63,664	\$ 342,188	\$ 42,408	\$ 1,194,051
State shared revenue	415,296	185,582	-	-	70,205	671,083
Licenses and permits	35,166	-	-	-	-	35,166
Charges for Services	613	-	191,766	-	-	192,379
Permits	-	-	-	-	10,591	10,591
Fines and Forfeits	8,089	-	-	-	-	8,089
Interest	18,062	2,413	1,879	900	8,542	31,796
Other Revenue	35,300	1,112	135	-	2,420	38,967
Total Revenues	1,258,317	189,107	257,444	343,088	134,166	2,182,122
EXPENDITURES:						
Legislative	14,570	-	-	-	-	14,570
General Government	274,289	-	-	-	-	274,289
Public Safety	502,212	-	-	-	-	502,212
Public Works	28,935	111,216	215,474	-	109,381	465,006
Cultural and Recreation	85,567	-	-	-	-	85,567
Other activities	28,208	-	-	-	44,542	72,750
Insurance/retirement	212,928	17,324	15,903	-	21,676	267,831
Capital Outlay	65,716	225	-	-	197,585	263,526
Debt service	-	-	-	338,313	-	338,313
Total Expenditures	1,212,425	128,765	231,377	338,313	373,184	2,284,064
EXCESS OF REVENUES OVER EXPENDITURES	45,892	60,342	26,067	4,775	(239,018)	(101,942)
OTHER FINANCING SOURCES (USES):						
Transfer from other funds	-	-	-	-	16,000	16,000
Transfer to other funds	(22,304)	(352)	(292)	-	(2,478)	(25,426)
Total Other Financing Sources (Uses)	(22,304)	(352)	(292)	-	13,522	(9,426)
NET CHANGE IN FUND BALANCES	23,588	59,990	25,775	4,775	(225,496)	(111,368)
FUND BALANCE - July 1, 2003	1,015,201	163,589	119,872	3,183	751,888	2,053,733
FUND BALANCE - June 30, 2004	\$ 1,038,789	\$ 223,579	\$ 145,647	\$ 7,958	\$ 526,392	\$ 1,942,365

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE
Essexville, Michigan

GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (111,368)

Amounts reported for governmental activities in the statement
of activities are different because -

Governmental funds report capital outlays as expenditures
while in the statement of activities, these costs are allocated
over their estimated lives as depreciation:

Depreciation expense	(699)
Capital asset purchases capitalized	86,171

Governmental funds report principal payments on the bonds as current expenses	125,000
--	---------

Governmental funds do not report the expenses for compensated absences	(4,097)
---	---------

An Internal Service fund is used by the City to charge equipment rental
costs to individual funds. The net revenue of the Internal Service fund
is reported with governmental activities in the statement of activities.

Change in Net Assets	<u>(97,546)</u>	
		<u>(97,546)</u>

TOTAL CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES	\$	<u><u>(2,539)</u></u>
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The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE
Essexville, Michigan

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2004

	Business Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund	TOTAL	
ASSETS:				
Current Assets:				
Cash	\$ 573,584	\$ 250,927	\$ 824,511	\$ 553,358
Customer receivables	42,630	32,992	75,622	-
Other receivables	-	187	187	-
Prepays	-	-	-	-
Total Current Assets	616,214	284,106	900,320	553,358
Noncurrent Assets:				
Capital Assets:				
Equipment, vehicles	-	-	-	1,095,814
Water and sewer systems	2,170,118	203,660	2,373,778	-
Accumulated depreciation	(290,102)	(23,897)	(313,999)	(515,224)
Total Noncurrent Assets	1,880,016	179,763	2,059,779	580,590
Total Assets	\$ 2,496,230	\$ 463,869	\$ 2,960,099	\$ 1,133,948
LIABILITIES:				
Current Liabilities				
Accounts payable	\$ 6,381	\$ 19,954	\$ 26,335	\$ 8,925
Customer deposits	1,749	1,551	3,300	-
Accrued expenses	17,150	1,304	18,454	204
Revenue bonds payable	90,000	-	90,000	-
Total Current Liabilities	115,280	22,809	138,089	9,129
Noncurrent Liabilities				
Revenue bonds payable	1,395,000	-	1,395,000	-
Total Noncurrent Liabilities	1,395,000	-	1,395,000	-
Total Liabilities	1,510,280	22,809	1,533,089	9,129
NET ASSETS:				
Invested in capital assets net of related debt	395,016	179,763	574,779	-
Designated for operations	546,000	261,297	807,297	-
Unrestricted	44,934	-	44,934	1,124,819
Total Net Assets	\$ 985,950	\$ 441,060	\$ 1,427,010	\$ 1,124,819

Reconciliation of Government Wide Statement of Net Assets:

Net assets of business-type activities \$ 1,427,010

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE
Essexville, Michigan
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2004

	<u>Business Type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Fund
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>TOTAL</u>	
OPERATING REVENUES:				
Charges for Services	\$ 507,049	\$ 396,556	\$ 903,605	\$ 162,163
Miscellaneous	<u>632</u>	<u>302</u>	<u>934</u>	<u>-</u>
Total Operating Revenues	507,681	396,858	904,539	162,163
OPERATING EXPENSES:				
Salaries	139,163	55,493	194,656	38,069
FICA	10,310	4,225	14,535	2,957
Operating expenses	109,862	18,374	128,236	123,288
Water purchases	-	201,819	201,819	-
Equipment rental	12,898	8,324	21,222	-
Contractual services	24,795	26,388	51,183	-
Insurance/retirement	76,415	28,851	105,266	29,154
Depreciation	<u>56,879</u>	<u>8,002</u>	<u>64,881</u>	<u>79,390</u>
Total Operating Expenses	430,322	351,476	781,798	272,858
Operating Income	77,359	45,382	122,741	(110,695)
NONOPERATING REVENUES(EXPENSES)				
Interest Income	6,893	2,430	9,323	8,282
Sale of Equipment	-	-	-	5,276
Interest Expense	<u>(34,425)</u>	<u>-</u>	<u>(34,425)</u>	<u>-</u>
Total Nonoperating Expenses	(27,532)	2,430	(25,102)	13,558
Income before contributions and transfers	49,827	47,812	97,639	(97,137)
Transfers Out	<u>(1,200)</u>	<u>(435)</u>	<u>(1,635)</u>	<u>(409)</u>
Change in Net Assets	48,627	47,377	96,004	(97,546)
Net Assets Beginning of Year	<u>937,323</u>	<u>393,683</u>	<u>1,331,006</u>	<u>1,222,365</u>
Net Assets End of Year	\$ <u>985,950</u>	\$ <u>441,060</u>	\$ <u>1,427,010</u>	\$ <u>1,124,819</u>

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE
Essexville, Michigan

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
June 30, 2004

	Business Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 76,265	\$ 105,101	\$ 181,365	\$
Cash received from other funds for services	0	0	0	
Other operating cash receipts	0	0	0	
Cash payments to suppliers for goods and services	(13,133)	(88,879)	(102,012)	39,411
Cash payments to employees for services	(32,766)	(45,253)	(78,019)	
Cash payments to other funds for services	0	0	0	
Net cash provided (used) by operating activities	30,365	(29,031)	1,334	39,411
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES:				
Transfers from other funds	49,310	80,000	129,310	0
Transfers to other funds	0	0	0	(30,000)
Net cash provided (used) by noncapital financing activities	49,310	80,000	129,310	(30,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of capital assets	(32,950)	(19,613)	(52,563)	(10,391)
Proceeds from sale of capital assets	0	0	0	2,981
Interest paid on bonds	(11,517)	(2,000)	(13,517)	0
Principal payments on bonds	(12,000)	(6,000)	(18,000)	0
Contributed capital	8,000	6,024	14,024	0
Net cash provided (used) by capital and related financing activities	(48,467)	(21,589)	(70,056)	(7,411)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	854	680	1,533	0
Net increase (decrease) in cash	32,062	30,060	62,121	2,000
Cash beginning of year	87,712	40,924	128,636	27,893
Cash end of year	\$ 119,773	\$ 70,984	\$ 190,757	\$ 29,893
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Income (loss) from operations	\$ (45,724)	\$ (41,015)	\$ (86,739)	\$ 18,813
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:				
Depreciation	56,509	30,712	87,221	20,451
Change in assets and liabilities:				
(Increase) decrease in due from other funds	19,476	0	19,476	0
(Increase) decrease in accounts receivable	780	884	1,664	0
Increase (decrease) in due to other funds	0	(19,476)	(19,476)	0
Increase (decrease) in accounts payable	(370)	581	211	147
Increase (decrease) in accrued expenses	(306)	(717)	(1,023)	0
Net Cash Provided (Used) in Operating Activities	\$ 30,365	\$ (29,031)	\$ 1,334	\$ 39,411

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE
Essexville, Michigan

STATEMENT OF NET ASSETS
FIDUCIARY FUND
June 30, 2004

Cash in Bank	\$ <u>69,907</u>
Fund Balance -	
Reserved for fringe benefits	\$ <u>69,907</u>

The accompanying notes are an integral part of the financial statements.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A: DESCRIPTION OF REPORTING ENTITY:

The City of Essexville is located in Bay County and operates under an elected City Council (6 members) and an elected Mayor, and provides services to its residents in many areas. The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below. For the year ended June 30, 2004, the City has implemented the new financial reporting requirements of GASB Statement Nos. 33 and 34. As a result, an entirely new financial presentation format has been implemented.

B: REPORTING ENTITY:

Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City hold the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit//burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Essexville has no component units.

C: BASIS OF PRESENTATION:

The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the activities of the City. The effect of the interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identified with a specific program. Program revenue includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

D: FUND FINANCIAL STATEMENTS:

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

General Fund -

General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Major Street Fund -

Major Street Fund is a legally mandated fund to account for specific proceeds of revenue from the Michigan Department of Transportation and to account for the legally restricted expenditures of those funds related to the maintenance and construction of major roads within the City.

Rubbish and Trash Fund -

The Rubbish and Trash Fund is used to account for taxes and receipts from customers related to the provision of trash removal and brush and leaf disposal services.

Debt Service Fund -

This fund is used to accumulate tax revenues for purposes of making the several interest and principal payments on the bonds.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Propriety Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major propriety funds:

Water and Sewer Funds -

The Water and Sewer Funds are used to account for the provision of water and sewer services to the residents of the City. Activities of the funds include administration, operation and maintenance of the water system and billing and collection activities. The funds also account for the accumulation of resources for, and the payment of, long-term debt. Costs are financed through charges to customers.

Propriety funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a propriety fund's principal ongoing operations. Operating expenses for the propriety funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

Agency Funds -

The Fringe Benefit Fund accounts for assets held by the City for funding of future liabilities. The amounts do not involve the measurement of results of operations.

E: Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for propriety funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and state shared governmental revenues. All other governmental fund revenues are recognized when received.

F: CAPITAL ASSETS -

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the entity-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, land improvements and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	25-40 years
Infrastructure	20-40 years
Land improvements	10-20 years
Vehicles	5-10 years
Furniture and other equipment	5-10 years

G: FUND EQUITY -

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

H: COMPARATIVE DATA/RECLASSIFICATIONS -

Comparative data is not included in the City's financial statements.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

I: ACCOUNTING CHANGE -

Effective July 1, 2003, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34). Changes to the City's financial statements as a result of GASB No. 34 are as follows: A Management's Discussion and Analysis (MD&A) section providing analysis of the City's overall financial position and results of operations has been included. Entity-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the City's activities have been provided.

J: PROPERTY TAXES:

The City's property taxes are levied and become a lien each July 1st, based on the taxable valuation of property located in the City as of the preceding December 31st. These taxes are due on August 31st or with the final collection date of March 2nd before they are added to the County's delinquent tax rolls. The City's property tax revenues are recognized as revenues in the fiscal year levied to the extent they are measurable and available.

The taxable valuation of City properties totaled \$ 75,017,243. Ad Valorem taxes levied on this valuation consisted of 9.7909 mills for City operations; .86 mills for trash collection; 1.00 mills for the Downtown Development Authority; and 4.6219 mills for the general operating bond issues.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the activity level. State law requires the City to have its budget in place by April 1st. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits entities to amend their budgets during the year. There were no significant amendments during the year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City did not have significant expenditure budget variances.

Fund Deficits - The City had no accumulated fund balance deficits.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 3. LONG-TERM DEBT:

Long-term obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Annual Ranges</u>	<u>Beginning Balance</u>	<u>Additions (Deductions)</u>	<u>Ending Balance</u>	<u>Current Portion</u>
GOVERNMENTAL ACTIVITIES						
2000 G.O. Bond	5.2	75,000-150,000	1,525,000.00	(75,000.00)	1,450,000.00	75,000
2001 G.O. Bond	4.00	50,000-225,000	1,500,000.00	(50,000.00)	1,450,000.00	50,000
2002 G.O. Bond	4.25	25,000-200,000	<u>1,500,000.00</u>	<u>(0.00)</u>	<u>1,500,000.00</u>	<u>25,000</u>
Total Governmental Activities			4,525,000.00	(125,000.00)	4,400,000.00	150,000
BUSINESS TYPE ACTIVITIES						
Loan payable	2.25	90,000-120,000	1,575,000.00	(90,000.00)	1,485,000	90,000

Annual debt service principal requirements:

	<u>G.O. Bonds</u>	<u>Loan Payable</u>
2004	\$ 150,000	\$ 90,000
2005	175,000	95,000
2006	200,000	95,000
2007	250,000	100,000
2008	250,000	100,000
2009	275,000	100,000
2010	300,000	105,000
2011	350,000	105,000
2012	375,000	110,000
2013	450,000	110,000
2014	500,000	115,000
2015	550,000	120,000
2016	575,000	120,000
2017	-	120,000

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 4. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2004 was as follows:

	<u>Balance July 1</u>	<u>Additions/ Completions</u>	<u>Retirements/ Adjustments</u>	<u>Balance June 30</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 456,240	\$ -	\$ -	\$ 456,240
Capital assets being depreciated				
Buildings and improvements	637,642	-	-	637,642
Construction in progress	-	79,180	-	79,180
Vehicles	1,057,684	58,130	-	1,115,814
Furniture and equipment	<u>93,470</u>	<u>6,991</u>	<u>-</u>	<u>100,461</u>
Subtotal	2,245,036	124,301	-	2,369,337
Less accumulated depreciation	<u>630,576</u>	<u>699</u>	<u>-</u>	<u>631,275</u>
Net capital assets	<u>\$1,614,460</u>	<u>\$ 123,602</u>	<u>\$ -</u>	<u>\$1,738,062</u>
Business -type activities:				
Capital assets being depreciated				
Buildings and improvements	1,880,619	-	-	1,880,619
Water and sewer distribution systems	354,361	15,235	-	369,596
Furniture and equipment	<u>29,571</u>	<u>93,992</u>	<u>-</u>	<u>123,563</u>
Subtotal	2,264,551	109,227	-	2,373,778
Less accumulated depreciation	<u>249,118</u>	<u>64,881</u>	<u>-</u>	<u>313,999</u>
Total net capital assets	<u>\$2,015,433</u>	<u>\$ 44,346</u>	<u>\$ -</u>	<u>\$2,059,779</u>

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Capital Projects	4,829	Debt Service	4,829
General Fund	<u>\$ 35,661</u>	DDA	<u>\$ 35,661</u>

NOTE 6. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS:

A. LEGAL COMPLIANCE:

Act 217, PA 1982, authorizes the City to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loans associations; bonds and other direct obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the three highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Michigan law prohibits security in the form of collateral, surety bond, or other forms for the deposit of public money. An Attorney General's opinion states that public funds may not be deposited in financial institutions located in states other than Michigan.

All City deposits were in compliance with state statutes.

B. DEPOSITS:

Deposits are carried at cost. Deposits of the City are maintained at Independent Bank, Wolverine Bank and Standard Federal Bank, federally insured banks.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the City's cash deposit at June 30, 2004 are as follows:

<u>Deposit</u>	<u>Carrying Amount</u>
Insured (FDIC)	\$ 300,000
Uninsured and Uncollateralized	<u>1,586,333</u>
Total	<u>\$ 1,886,333</u>

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 7. DEFINED BENEFIT PENSION PLAN:

Plan Description

The City participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publically available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, Michigan, 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the collective bargaining units and requires no contribution from the employees.

Annual Pension Cost

For the year ended June 30, 2004, the City's annual pension cost for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using an entry age normal funding method. Significant actuarial assumptions used include: (a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually, (b) projected salary increases of 4.5 percent per year compounded annually, (c) additional projected salary increases ranging from 0 percent to 4.2 percent per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase annually 2.5 percent per year, after retirement.

At December 31, 2003, the unfunded actuarial accrued liability was \$ 656,012 determined as follows :

Actuarial Accrued Liability :

Retirees and beneficiaries currently receiving benefits	\$ 3,257,301
Terminated employees not yet receiving benefits	92,792

Current employees -	
Accumulated employee contributions	
Including allocated investment income	497,437

Employer financed	<u>1,426,979</u>
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Total Actuarial Accrued Liability	5,274,509
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Net Assets Available for Benefits at Actuarial Value	<u>4,618,497</u>
Unfunded Actuarial Accrued Liability	\$ 656,012

For the fiscal year beginning July 1st, 2004 the annual required contribution based on valuation payroll will be \$ 81,444 based on an amortization factor of .053632.

CITY OF ESSEXVILLE
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 8. RISK MANAGEMENT :

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages its liability and property risk by participating in the Michigan Municipal Risk Management Authority a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to Michigan Municipal Risk Management Authority for its insurance coverage. The Michigan Municipal Risk Management Authority is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based on property coverage of its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any or the past three fiscal years.

The City manages its workers' compensation by participating in Michigan Municipal League, a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to Michigan Municipal League for its insurance coverage. The Michigan Municipal League is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based coverage for each incident to its members by internally assuring certain risks and reinsuring risks thorough commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF ESSEXVILLE
Essexville, Michigan
 GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
Year Ended June 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Taxes	\$ 733,767	\$ 733,767	\$ 745,791	\$ 12,024
State revenue sharing	414,166	414,166	415,296	1,130
Licenses and permits	36,125	36,125	35,166	(959)
Charges for services	50	50	613	563
Interest	14,054	11,848	15,062	3,214
Fines and forfeits	2,400	2,400	8,089	5,689
Other Revenue	3,200	5,406	35,300	29,894
Total Revenues	1,203,762	1,203,762	1,255,317	51,555
EXPENDITURES:				
Legislative	15,459	15,459	14,570	889
General Government				
City Manager	75,227	75,767	74,035	1,732
Elections	10,900	4,400	4,290	110
Mayor	4,499	4,499	4,150	349
Assessor	20,852	19,852	18,758	1,094
Attorney	25,000	32,000	31,981	19
Board of Review	1,207	1,207	807	400
Treasurer	40,905	40,925	38,301	2,624
Clerk	70,531	67,532	63,970	3,562
City Hall	38,392	35,892	34,797	1,095
Accounting and audit	3,400	3,400	3,300	100
Public Safety				
Fire	41,740	39,241	36,173	3,068
Police	481,547	477,547	466,039	11,508
Public Works				
Sidewalk repair	32,692	18,692	13,430	5,262
Department of Public works	17,750	15,950	1,555	14,395
Cultural and Recreation				
Parks and recreation	31,898	36,398	37,178	(780)
Community relations	48,500	52,500	48,389	4,111
Other activities	35,434	31,934	28,208	3,726
Insurance/retirement	213,712	213,712	212,928	784
Capital outlay	44,000	67,000	65,716	1,284
Total Expenditures	1,253,645	1,253,907	1,198,575	55,332
OTHER FINANCING SOURCES (USES):				
Transfer to other funds	24,615	24,615	23,588	1,027
NET CHANGE IN FUND BALANCE	(49,883)	(50,145)	56,742	(3,777)
FUND BALANCE - BEGINNING OF YEAR	1,015,201	1,015,201	1,015,201	-
FUND BALANCE - END OF YEAR	\$ 965,318	\$ 965,056	\$ 1,071,943	\$ 106,887

OTHER SUPPORTING INFORMATION

CITY OF ESSEXVILLE
Essexville, Michigan
 MAJOR STREET FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
Year Ended June 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES:				
State Grants	\$ 169,532	\$ 169,532	\$ 185,582	\$ 16,050
Interest and Rentals	<u>2,856</u>	<u>2,856</u>	<u>3,525</u>	<u>669</u>
Total Revenues	172,388	172,388	189,107	16,719
EXPENDITURES:				
Storm drainage	18,320	17,819	14,713	3,106
Maintenance	49,213	48,713	46,607	2,106
Traffic services	16,607	9,107	4,657	(4,450)
Winter maintenance	26,710	33,211	29,418	(3,793)
Adminiatration	15,818	16,819	15,821	998
Capital outlay	-	1,000	225	775
Insurance/retirement	<u>17,882</u>	<u>17,881</u>	<u>17,324</u>	<u>(557)</u>
Total Expenditures	<u>144,550</u>	<u>144,550</u>	<u>128,765</u>	<u>(1,815)</u>
EXCESS REVENUES OVER EXPENDITURES	27,838	27,838	60,342	32,504
OTHER FINANCING SOURCES (USES)				
Transfer to other fund	<u>533</u>	<u>533</u>	<u>352</u>	<u>(181)</u>
Excess (deficiency) of revenues over expenditures and other uses	27,305	27,305	59,990	32,685
FUND BALANCE - BEGINNING OF YEAR	<u>163,589</u>	<u>163,589</u>	<u>163,589</u>	-
FUND BALANCE - END OF YEAR	\$ <u>190,894</u>	\$ <u>190,894</u>	\$ <u>223,579</u>	\$ <u>32,685</u>

CITY OF ESSEXVILLE
Essexville, Michigan
 RUBBISH AND TRASH FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
Year Ended June 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES:				
Taxes	\$ 63,586	\$ 63,586	\$ 63,664	\$ 78
Charges for services	189,770	189,770	191,766	1,996
Interest	1,486	1,486	1,879	393
Other	100	100	135	35
Total Revenues	254,942	254,942	257,444	2 502
EXPENDITURES:				
Administrative	2,948	2,947	2,313	(634)
Rubbish collection	190,321	190,320	186,529	(3,791)
Brush and leaves	40,895	40,895	26,632	(14,263)
Insurance/retirement	20,526	20,528	15,903	(4,625)
Total Expenditures	254,690	254,690	231,377	(23,313)
EXCESS REVENUES OVER EXPENDITURES	252	252	26,067	25,815
OTHER FINANCING SOURCES (USES)				
Transfer to other funds	443	443	292	(151)
Excess (deficiency) of revenues over expenditures and other uses	(191)	(191)	25,775	25,664
FUND BALANCE - BEGINNING OF YEAR	119,872	119,872	119,872	-
FUND BALANCE - END OF YEAR	\$ 119,681	\$ 119,681	\$ 145,647	\$ 25,664

CITY OF ESSEXVILLE
Essexville, Michigan
 BOND DEBT SERVICE
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
Year Ended June 30, 2004

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES:				
Taxes	\$ 341,688	\$ 341,688	\$ 342,188	\$ 500
Interest	200	200	900	700
Total Revenues	341,888	341,888	343,088	1,200
EXPENDITURES:				
Principal	125,000	125,000	125,000	-
Interest	215,188	215,188	212,900	(2,288)
Contractual	1,000	1,000	413	(587)
Total Expenditures	341,188	341,188	338,313	(2,875)
EXCESS REVENUES OVER EXPENDITURES	700	700	4,775	4,075
FUND BALANCE - BEGINNING OF YEAR	3,183	3,183	3,183	-
FUND BALANCE - END OF YEAR	\$ 3,883	\$ 3,883	\$ 7,958	\$ 4,075

CITY OF ESSEXVILLE
Essexville, Michigan

COMBINING BALANCE SHEET
NON MAJOR GOVERNMENTAL FUNDS
June 30, 2004

	SPECIAL REVENUE FUNDS					CAPITAL PROJECTS FUND	TOTAL
	Local Street Fund	D.D.A. Fund	Justice Training	Inspection	Total Special Revenue Funds	Street Repairs & Construction	
<u>ASSETS</u>							
Cash	\$ 203,463	\$ 166,805	\$ 6,108	\$ 1,449	\$ 377,825	\$ 174,143	\$ 551,968
Due from State	11,418	-	-	-	11,418	-	11,418
Accounts Receivable	-	-	-	220	220	245	465
Due from Dbt Fund	-	-	-	-	-	4,829	4,829
Total Assets	\$ <u>214,881</u>	\$ <u>166,805</u>	<u>6,108</u>	<u>1,669</u>	\$ <u>389,463</u>	\$ <u>179,217</u>	\$ <u>568,680</u>
<u>LIABILITIES AND FUND BALANCE</u>							
Due to General Fund	\$ -	\$ 35,661	\$ -	\$ -	\$ 35,661	\$ -	35,661
Accounts payable	124	4,975	-	-	5,099	-	5,099
Accrued payroll	926	319	-	283	1,528	-	\$ 1,528
	<u>1,050</u>	<u>40,955</u>	<u>-</u>	<u>283</u>	<u>42,288</u>	<u>-</u>	<u>42,288</u>
Fund balance	<u>213,831</u>	<u>125,850</u>	<u>6,108</u>	<u>1,386</u>	<u>347,175</u>	<u>179,217</u>	<u>526,392</u>
	\$ <u>214,881</u>	\$ <u>166,805</u>	\$ <u>6,108</u>	\$ <u>1,669</u>	\$ <u>389,463</u>	\$ <u>179,217</u>	\$ <u>568,680</u>

CITY OF ESSEXVILLE
Essexville, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON MAJOR GOVERNMENTAL FUNDS
Year ended June 30, 2004

	SPECIAL REVENUE FUNDS					CAPITAL PROJECTS FUND	
	Local Street Fund	D.D.A. Fund	Justice Training	Inspection	Total Special Revenue Funds	Street repairs & Construction	TOTAL
REVENUES:							
State Shared Revenue	\$ 67,182	\$ -	\$ 3,023	\$ -	\$ 70,205	\$ -	\$ 70,205
Property Taxes	-	42,408	-	-	42,408	-	42,408
Permits	-	-	-	10,591	10,591	-	10,591
Interest	3,284	2,417	64	-	5,765	-	5,765
Other Revenues	-	2,420	-	-	2,420	2,777	8,542
Total Revenues	70,466	47,245	3,087	10,591	131,389	2,777	134,166
EXPENDITURES:							
Public Works	109,381	-	-	-	109,381	-	109,381
Insurance/Retirement	19,444	-	-	2,232	21,676	-	21,676
Other Activities	-	18,439	1,758	23,433	43,630	912	44,542
Capital Outlay	45,000	19,394	-	-	64,394	133,191	197,585
Total Expenditures	173,825	37,833	1,758	25,665	239,081	134,103	373,184
EXCESS OF REVENUES OVER EXPENDITURES	(103,359)	9,412	1,329	(15,074)	(107,692)	(131,326)	(239,018)
OTHER FINANCING SOURCES:							
Transfers from (to) other funds	(272)	(2,206)	-	16,000	13,522	-	13,522
NET CHANGES IN FUND BALANCE	(103,631)	7,206	1,329	926	(94,170)	(131,326)	(225,496)
FUND BALANCE - July 1, 2003	317,462	118,644	4,779	460	441,345	310,543	751,888
FUND BALANCE - June 30, 2004	\$ 213,831	\$ 125,850	\$ 6,108	\$ 1,386	\$ 347,175	\$ 179,217	\$ 526,392

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
For the Year Ended June 30, 2004

REVENUES:

Advalorem taxes -	
Current taxes	\$ 722,759
Interest, penalties and fees	23,032
Total Advalorem Taxes	<u>745,791</u>
Licenses and Permits -	
Cable television	34,418
Cat/dog/liquor licenses	189
Miscellaneous	559
Total Licenses and Permits	<u>35,166</u>
State Revenues -	
Sales taxes	<u>415,296</u>
Total State Revenues	<u>415,296</u>
Charges for Services -	
Service fees	<u>613</u>
Total Charges for Services	<u>613</u>
Fines and Forfeits -	
Ordinance fines	7,451
Parking fines	638
Total Fines and Forfeits	<u>8,089</u>
Miscellaneous -	
Investment	18,062
Metro Act	13,336
Lease	7,700
Miscellaneous	14,264
Total Miscellaneous	<u>53,362</u>
Total Revenues	\$ <u><u>1,258,317</u></u>

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
For the Year Ended June 30, 2004

	<u>ACTUAL</u>
REVENUES:	
Advalorem taxes -	
Current taxes	\$ 722,759
Interest, penalties and fees	<u>23,032</u>
Total Advalorem Taxes	745,791
Licenses and Permits -	
Cable television	34,418
Cat/dog/liquor licenses	189
Miscellaneous	<u>559</u>
Total Licenses and Permits	35,166
State Revenues -	
Sales taxes	<u>415,296</u>
Total State Revenues	415,296
Charges for Services -	
Service fees	<u>613</u>
Total Charges for Services	613
Fines and Forfeits -	
Ordinance fines	7,451
Parking fines	<u>638</u>
Total Fines and Forfeits	8,089
Miscellaneous -	
Investment	18,062
Metro Act	13,336
Lease	7,700
Miscellaneous	<u>14,264</u>
Total Miscellaneous	53,362
Total Revenues	\$ <u><u>1,258,317</u></u>

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE (continued)
For the Year Ended June 30, 2004

	<u>ACTUAL</u>
EXPENDITURES:	
Legislative -	
City Council	
Salaries	\$ 6,000
FICA	459
Other expenses	8,111
Total City Council	<u>14,570</u>
General Government -	
Mayor	
Salaries	1,300
FICA	99
Other expenses	2,751
Total Mayor	<u>4,150</u>
City Manager	
Salaries	64,158
FICA	4,872
Other expenses	5,005
Total City Manager	<u>74,035</u>
Elections	
Salaries	798
Other expenses	3,392
Total Elections	<u>4,190</u>
Assessor	
Salaries	14,865
FICA	1,137
Other expenses	2,756
Total Assessor	<u>18,758</u>
City Attorney	
Supplies and Fees	31,981
City Clerk	
Salaries	46,832
FICA	3,553
Other expenses	13,585
Total City Clerk	<u>63,970</u>

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE (continued)
For the Year Ended June 30, 2004

	<u>ACTUAL</u>
EXPENDITURES:	
General Government (cont.)	
Accounting and Audit	
Audit	\$ 3,300
Total Accounting and Audit	<u>3,300</u>
Board of Review	
Salaries	750
FICA	57
Education and Training	-
Other expenses	-
Total Board of Review	<u>807</u>
Treasurer	
Salaries	28,696
FICA	2,177
Other expenses	7,428
Total Treasurer	<u>38,301</u>
City Hall	
Salaries	5,037
FICA	315
Other expenses	29,445
Total City Hall	<u>34,797</u>
Total General Government	<u>274,289</u>

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE (continued)
For the Year Ended June 30, 2004

	<u>ACTUAL</u>
EXPENDITURES:	
Public Safety -	
Fire Department	
Salaries	\$ 17,738
FICA	1,821
Other expenses	14,173
Equipment	<u>2,441</u>
Total Fire Department	36,173
Police Department	
Salaries	367,404
FICA	28,530
D.A.R.E. expenses	917
Other expenses	<u>69,188</u>
Total Police Department	<u>466,039</u>
Total Public Safety	502,212

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE (continued)
For the Year Ended June 30, 2004

	<u>ACTUAL</u>
EXPENDITURES:	
Public Works -	
Department of Public Works	
Salaries	\$ -
FICA	-
Other expenses	15,505
Total Department of Public Works	<u>15,505</u>
Sidewalk Repair and Construction	
Salaries	6,314
FICA	571
Other expenses	6,545
Total Sidewalk Repair and Construction	<u>13,430</u>
Total Public Works	28,935

CITY OF ESSEXVILLE
Essexville, Michigan
 GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE (continued)
For the Year Ended June 30, 2004

	<u>ACTUAL</u>
EXPENDITURES:	
Culture and recreation -	
Parks and Recreation	
Salaries	\$ 19,731
FICA	1,397
Other expenses	<u>16,050</u>
Total Parks and Recreation	37,178
Community Relations	
Civic Betterment	2,859
Community Schools	2,500
Street Lights	<u>43,030</u>
Total Community Relations	48,389
Total culture and recreation	85,567
Other activities -	
Forestry	
Salaries	7,348
FICA	562
Other expenses	<u>19,320</u>
Total Forestry	27,230
Planning and Board of Appeals	
Salaries	308
FICA	24
Other expenses	<u>646</u>
Total Planning and Board of Appeals	978
Total Other Activities	28,208
Insurance/retirement	212,928
Capital projects	65,716
OTHER FINANCING SOURCES AND (USES):	
Transfer to other funds	<u>(22,304)</u>
TOTAL EXPENDITURES	1,234,729
EXCESS OF REVENUES OVER EXPENDITURES	23,588
FUND BALANCE - July 1, 2003	<u>1,015,201</u>
FUND BALANCE - June 30, 2004	<u><u>1,038,789</u></u>